

**REPORT OF THE AUDIT OF THE
GARRARD COUNTY
SHERIFF'S SETTLEMENT - 2005 TAXES**

March 31, 2006



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE 502.573.0050
FACSIMILE 502.573.0067**

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
GARRARD COUNTY
SHERIFF'S SETTLEMENT - 2005 TAXES

March 31, 2006

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2005 Taxes for Garrard County Sheriff as of March 31, 2006. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$5,903,164 for the districts for 2005 taxes, retaining commissions of \$223,819 to operate the Sheriff's office. The Sheriff distributed taxes of \$5,676,144 to the districts for 2005 Taxes. No taxes are due the districts from the Sheriff and a refund of \$331 is due the Sheriff from one taxing district.

Report Comment:

The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits as of November 9, 2005 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$575,742

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
SHERIFF'S SETTLEMENT - 2005 TAXES	3
NOTES TO FINANCIAL STATEMENT	4
COMMENT AND RECOMMENDATION	9
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	13



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
John Farris, Secretary
Finance and Administration Cabinet
Honorable John Wilson, Garrard County Judge/Executive
Honorable Ronald G. Wardrip, Garrard County Sheriff
Members of the Garrard County Fiscal Court

Independent Auditor's Report

We have audited the Garrard County Sheriff's Settlement - 2005 Taxes as of March 31, 2006. This tax settlement is the responsibility of the Garrard County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Garrard County Sheriff's taxes charged, credited, and paid as of March 31, 2006, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated November 10, 2006 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
John Farris, Secretary
Finance and Administration Cabinet
Honorable John Wilson, Garrard County Judge/Executive
Honorable Ronald G. Wardrip, Garrard County Sheriff
Members of the Garrard County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
November 10, 2006

GARRARD COUNTY
RONALD G. WARDRIP, SHERIFF
SHERIFF'S SETTLEMENT - 2005 TAXES

March 31, 2006

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 440,470	\$ 897,376	\$ 3,295,164	\$ 730,400
Tangible Personal Property	10,546	23,530	64,857	37,856
Intangible Personal Property				28,173
Increases Through Exonerations	163	309	1,217	270
Franchise Taxes	51,247	120,690	326,668	
Additional Billings	28	50	204	47
Limestone, Sand and Mineral Reserves	132	312	984	218
Penalties	3,150	6,367	23,510	4,582
Adjusted to Sheriff's Receipt	(162)	(207)	(1,188)	(279)
Gross Chargeable to Sheriff	505,574	1,048,427	3,711,416	801,267
<u>Credits</u>				
Exonerations	1,092	2,235	8,168	1,963
Discounts	6,338	12,907	47,253	11,347
Delinquents:				
Real Estate	5,839	12,265	43,676	9,682
Tangible Personal Property	44	102	268	196
Intangible Personal Property				11
Unbilled Franchise Taxes		134		
Total Credits	13,313	27,643	99,365	23,199
Taxes Collected	492,261	1,020,784	3,612,051	778,068
Less: Commissions *	21,209	31,997	137,258	33,355
Taxes Due	471,052	988,787	3,474,793	744,713
Taxes Paid	470,761	988,193	3,472,630	744,560
Refunds (Current and Prior Year)	291	594	2,163	484
Refund Due Sheriff as of Completion of Fieldwork	\$ 0	\$ 0	\$ 0	\$ (331)

* Commissions:

10% on	\$ 10,000
4.25% on	\$ 1,930,765
3.8% on	\$ 3,612,051
1.0% on	\$ 350,348

The accompanying notes are an integral part of this financial statement.

GARRARD COUNTY
NOTES TO FINANCIAL STATEMENT

March 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue that are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue that are recognized when there is proper authorization. Taxes paid are uses of revenue that are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

GARRARD COUNTY
NOTES TO FINANCIAL STATEMENT
March 31, 2006
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of March 31, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of November 9, 2005, \$575,742 of public funds were exposed to custodial credit risk as follows:

- Uninsured and Unsecured \$575,742

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2005. Property taxes were billed to finance governmental services for the year ended June 30, 2006. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 27, 2005 through March 31, 2006.

Note 4. Interest Income

The Garrard County Sheriff earned \$2,483 as interest income on 2005 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder is to be used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Garrard County Sheriff collected \$21,969 of 10% add-on fees allowed by KRS 134.430(3). This amount is to be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Garrard County Sheriff collected \$1,400 of advertising costs and \$805 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees are to be used to operate the Sheriff's office.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After three years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2005 taxes, the Sheriff had \$3,328 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

THIS PAGE LEFT BLANK INTENTIONALLY

COMMENT AND RECOMMENDATION

GARRARD COUNTY
RONALD G. WARDRIP, SHERIFF
COMMENT AND RECOMMENDATION

March 31, 2006

INTERNAL CONTROL - REPORTABLE CONDITION:

The Sheriff's Office Lacks Adequate Segregation Of Duties

We noted the lack of adequate segregation of duties for the internal control structure and its operation. Due to the entity's diversity of official operations, small staff size, and budget restrictions, the official has limited options for establishing adequate segregation of duties. However, the Sheriff could implement some of the following procedures to establish compensating controls to offset the lack of adequate segregation of duties.

These controls could include the performance of surprise cash counts by the Sheriff, reconciliation of monthly reports to source documents and the receipts and disbursements ledgers by the Sheriff, and examination of the monthly bank reconciliation by the Sheriff. If these compensating controls are implemented, the Sheriff should document the duties performed by initialing source documents.

Sheriff's Response: Will attempt to comply.

THIS PAGE LEFT BLANK INTENTIONALLY

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John Wilson, Garrard County Judge/Executive
Honorable Ronald G. Wardrip, Garrard County Sheriff
Members of the Garrard County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Garrard County Sheriff's Settlement - 2005 Taxes as of March 31, 2006, and have issued our report thereon dated November 10, 2006. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Garrard County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that the reportable condition described above is a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Garrard County Sheriff's Settlement - 2005 Taxes as of March 31, 2006 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
November 10, 2006

